

CENTRAL LEE COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Central Lee Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Greg Ruth	President	2006
Dennis Krehbiel	Vice President	2007
Robert Bryant	Board Member	2005
Sara Statter	Board Member(resigned)	2007
Ken Bailey	Board Member(appointed)	2005
Doug Hopp	Board Member	2005

Board of Education (After September 2005 Election)		
Robert Galle	President	2008
Greg Ruth	Vice President	2006
John Johnson	Board Member	2006
Dennis Krehbiel	Board Member	2007
Robert Bryant	Board Member	2008

School Officials

Charles Reighard	Superintendent	2006
Sandra Meierotto	District Secretary and Business Manager	2006
Sharon Bradley	District Treasurer	2006
Gruhn Law Firm	Attorney	2006
James Miller	Attorney	2006

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Central Lee Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Central Lee Community School District, Donnellson, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Central Lee Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2006 on our consideration of the Central Lee Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Central Lee Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

September 15, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Central Lee Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$8,028,075 in fiscal 2005 to \$8,079,243 in fiscal 2006, while General Fund expenditures increased from \$8,057,994 in fiscal 2005 to \$8,270,528 in fiscal 2006. This result, along with a \$52,793 transfer to debt service for the bus lease, decreased the District's General Fund balance from a positive \$33,500 in fiscal 2005 to a deficit fund balance of \$185,436 in fiscal 2006.
- The increase in General Fund revenues was attributable to an increase in state grant revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.
- The District ended the 2005-06 school year with a negative 2.6% solvency ratio.
- According to the Department of Management, the District finished the 2006 year with an unspent balance authority of \$360,386.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Central Lee Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Central Lee Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Central Lee Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Central Lee Community School District Annual Financial Report

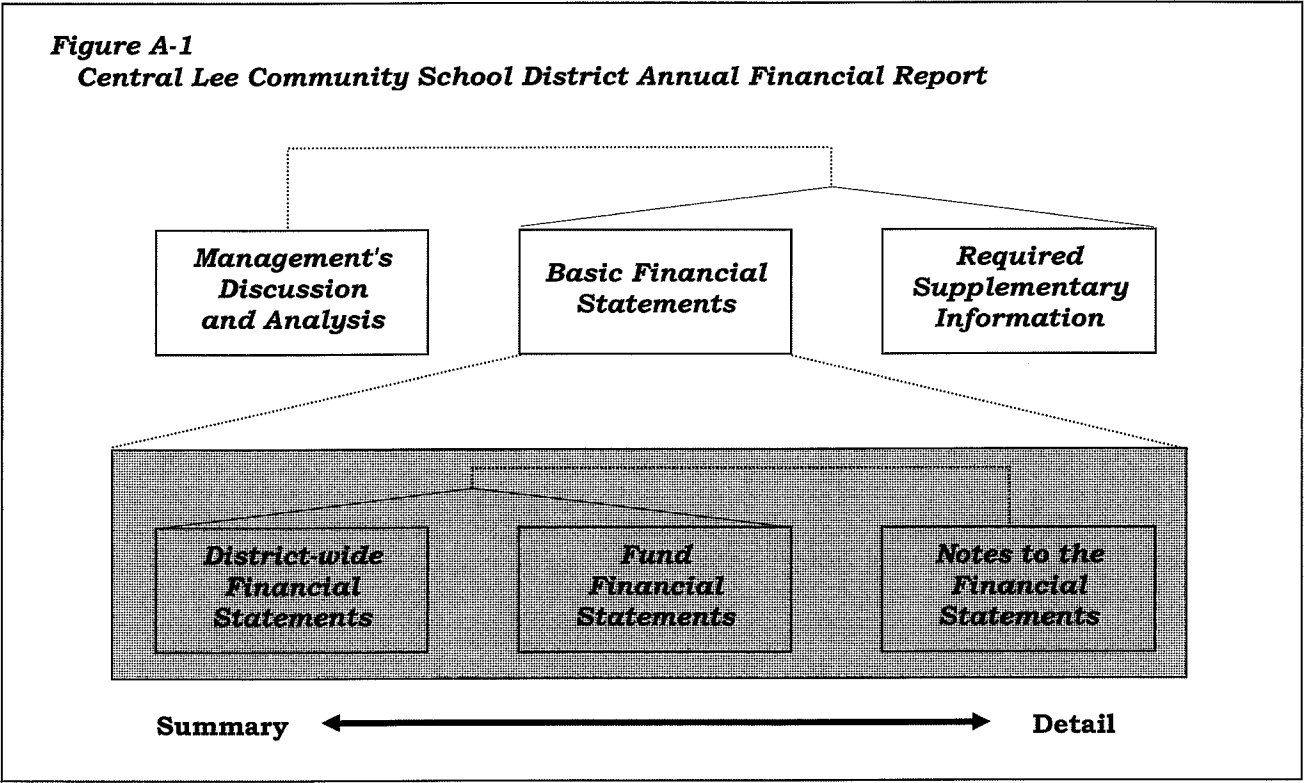


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service, and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 6,485,280	6,447,651	45,117	33,295	6,530,397	6,480,946	0.76%
Capital assets	6,520,328	6,684,424	34,847	40,916	6,555,175	6,725,340	-2.53%
Total assets	13,005,608	13,132,075	79,964	74,211	13,085,572	13,206,286	-0.91%
Long-term obligations	1,728,510	2,182,128	0	0	1,728,510	2,182,128	-20.79%
Other liabilities	5,189,249	4,956,108	3,878	4,324	5,193,127	4,960,432	4.69%
Total liabilities	6,917,759	7,138,236	3,878	4,324	6,921,637	7,142,560	-3.09%
Net assets:							
Invested in capital assets, net of related debt	5,693,502	5,531,791	34,847	40,916	5,728,349	5,572,707	2.79%
Restricted	359,639	256,010	0	0	359,639	256,010	40.48%
Unrestricted	34,708	206,038	41,239	28,971	75,947	235,009	-67.68%
Total net assets	\$ 6,087,849	5,993,839	76,086	69,887	6,163,935	6,063,726	1.65%

The District's combined net assets increased by \$100,209 or 1.65% over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$103,629 or 40.48% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$159,062 or 67.68%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 1,113,010	724,243	193,110	162,157	1,306,120	886,400	47.35%
Operating grants and contributions and restricted interest	889,278	1,353,073	189,593	179,735	1,078,871	1,532,808	-29.61%
General revenues:							
Property tax	2,531,138	2,895,984	0	0	2,531,138	2,895,984	-12.60%
Local option sales and service tax	598,387	596,861	0	0	598,387	596,861	0.26%
Unrestricted state grants	3,910,492	3,826,784	0	0	3,910,492	3,826,784	2.19%
Other	181,796	53,351	572	502	182,368	53,853	238.64%
Total revenues	9,224,101	9,450,296	383,275	342,394	9,607,376	9,792,690	-1.89%
Program expenses:							
Governmental activities:							
Instructional	6,032,567	6,041,486	0	0	6,032,567	6,041,486	-0.15%
Support services	2,386,772	2,340,788	4,893	0	2,391,665	2,340,788	2.17%
Non-instructional programs	0	0	372,183	360,840	372,183	360,840	3.14%
Other expenses	710,752	684,241	0	0	710,752	684,241	3.87%
Total expenses	9,130,091	9,066,515	377,076	360,840	9,507,167	9,427,355	0.85%
Change in net assets before other financing sources	94,010	383,781	6,199	(18,446)	100,209	365,335	-72.57%
Other financing sources, net	0	75	0	0	0	75	-100.00%
Change in net assets	94,010	383,856	6,199	(18,446)	100,209	365,410	-72.58%
Net assets beginning of year	5,993,839	5,609,983	69,887	88,333	6,063,726	5,698,316	6.41%
Net assets end of year	\$ 6,087,849	5,993,839	76,086	69,887	6,163,935	6,063,726	1.65%

In fiscal 2006, property tax and unrestricted state grants account for 69.8% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.9% of the revenue from business type activities.

The District's total revenues were approximately \$9.6 million of which \$9.2 million was for governmental activities and \$.4 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a decrease of 1.89% in revenues and a .85% increase in expenses. The increase in expenses was related to the increase in the negotiated salaries and benefits during the year.

Governmental Activities

Revenues for governmental activities were \$9,224,101 and expenses were \$9,130,091.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 6,032,567	4,332,917
Support services	2,386,772	2,373,646
Other expenses	710,752	421,240
Totals	<u>\$ 9,130,091</u>	<u>7,127,803</u>

- The cost financed by users of the District's programs was \$1,113,010.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$889,278.
- The net cost of governmental activities was financed with \$2,531,138 in property tax, \$598,387 in local option sales and service tax, \$3,910,492 in unrestricted state grants, and \$96,285 in investment interest.

Business-Type Activities

Revenues of the District's business-type activities were \$383,275 and expenses were \$377,076. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Central Lee Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,044,222, below last year's ending fund balances of a \$1,193,590.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Growth during the year in grants resulted in an increase in revenues. However, the increase in revenues was not enough to offset the increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$33,500 to a deficit of \$185,436, due in part to the negotiated salary and benefits settlement, and existing expenditure commitments of the District.
- The Debt Service Fund balance decreased from \$513,874 to \$494,590. Transfers of \$467,850 from the General and Capital Projects Fund were used to help pay the \$490,652 of debt related expenditures.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$69,887 at June 30, 2005 to \$76,086 at June 30, 2006, representing an increase of approximately 8.9%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$92,345 less than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving less in state and federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$6,555,175, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 2.6% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$334,904.

The original cost of the District's capital assets was \$12,448,389. Governmental funds account for \$12,242,681 with the remainder of \$205,708 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$248,558 at June 30, 2006, compared to \$336,085 reported at June 30, 2005. This decrease is primarily due to the depreciation expense incurred during the current year.

Figure A-6
Capital Assets, Net of Depreciation

	Capital Assets, Net of Depreciation							
	Governmental Activities		Business-Type Activities		Total School District		Total Change	
	June 30,		June 30,		June 30,		June 30,	
	2006	2005	2006	2005	2006	2005	2005-06	
Land	\$ 203,592	203,592	0	0	203,592	203,592	0.00%	
Buildings	5,475,925	5,587,937	0	0	5,475,925	5,587,937	-2.05%	
Improvements other than buildings	627,100	597,726	0	0	627,100	597,726	4.68%	
Machinery and equipment	213,711	295,169	34,847	40,916	248,558	336,085	-35.21%	
Total	\$ 6,520,328	6,684,424	34,847	40,916	6,555,175	6,725,340	-2.60%	

Long-Term Debt

At June 30, 2006, the District had long-term debt outstanding of \$1,728,510 in general obligation bonds, land, early retirement, and a bus lease. There was approximately a 20.8% decrease in debt load from the previous year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

At June 30, 2006, the District had total outstanding general obligation bonds payable of \$1,535,000, as well as, land purchase payable of \$100,817.

The District has a bus lease outstanding of \$50,763, payable from the General Fund. The remaining balance will be paid in FY 06-07.

The District had total outstanding Early Retirement payable from the Special Revenue, Management Levy Fund of \$41,930 at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2006	2005	2005-06
General obligation bonds	\$ 1,535,000	1,870,000	-17.9%
Land	100,817	109,593	-8.0%
Bus lease	50,763	99,577	-49.0%
Early retirement	41,930	102,958	-59.3%
Totals	<u>\$ 1,728,510</u>	<u>2,182,128</u>	<u>-20.8%</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District's October 2006 certified enrollment showed a decrease of 33.6 students. This will have a negative impact for the District.
- The District continues to make staff reductions in order to match declining enrollment.
- The upcoming Iowa legislative session could again prove to be most challenging in respect to the state budget. The impact of state reductions to education is an unknown that we must be ready to address and compensate.
- The District must not continue to allow expenditures to outpace revenues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandra Meierotto, District Secretary, Central Lee Community School District, 2642 Highway 218, Donnellson, Iowa, 52625.

BASIC FINANCIAL STATEMENTS

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP (Note 4)	\$ 1,902,071	0	1,902,071
Other	1,706,148	29,875	1,736,023
Receivables			
Property tax:			
Delinquent	40,534	0	40,534
Succeeding year	2,287,654	0	2,287,654
Income surtax	296,066	0	296,066
Accounts	6,018	0	6,018
Accrued ISCAP interest (Note 4)	15,829	0	15,829
Due from other governments	230,960	0	230,960
Inventories	0	15,242	15,242
Capital assets, net of accumulated depreciation (Note 5)	6,520,328	34,847	6,555,175
Total Assets	13,005,608	79,964	13,085,572
Liabilities			
Accounts payable	29,872	0	29,872
Interest payable	44,257	0	44,257
Salaries and benefits payable	895,304	75	895,379
ISCAP warrants payable (Note 4)	1,901,000	0	1,901,000
ISCAP accrued interest payable (Note 4)	14,823	0	14,823
ISCAP unamortized premium	13,428	0	13,428
Deferred revenue:			
Succeeding year property tax	2,287,654	0	2,287,654
Other	2,911	0	2,911
Unearned revenue	0	3,803	3,803
Long-term liabilities: (Note 6)			
Portion due within one year:			
Revenue bonds payable	355,000	0	355,000
Bus Lease	50,763	0	50,763
Land	9,478	0	9,478
Early Retirement	41,930	0	41,930
Portion due after one year:			
Revenue bonds payable	1,180,000	0	1,180,000
Land	91,339	0	91,339
Total Liabilities	6,917,759	3,878	6,921,637
Net Assets			
Investment in capital assets, net of related debt	5,693,502	34,847	5,728,349
Restricted for:			
Phase III	1,577	0	1,577
Early Intervention	23,582	0	23,582
Management levy	105,876	0	105,876
Physical plant and equipment levy	69,510	0	69,510
Other special revenue purposes	159,094	0	159,094
Unrestricted	34,708	41,239	75,947
Total Net Assets	\$ 6,087,849	76,086	6,163,935

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 4,175,309	618,766	543,666	(3,012,877)	0	(3,012,877)
Special instruction	942,170	184,299	46,964	(710,907)	0	(710,907)
Other instruction	915,088	305,955	0	(609,133)	0	(609,133)
	<u>6,032,567</u>	<u>1,109,020</u>	<u>590,630</u>	<u>(4,332,917)</u>	<u>0</u>	<u>(4,332,917)</u>
Support services:						
Student services	289,636	0	0	(289,636)	0	(289,636)
Instructional staff services	124,147	0	0	(124,147)	0	(124,147)
Administration services	891,723	0	0	(891,723)	0	(891,723)
Operation and maintenance of plant services	693,236	0	0	(693,236)	0	(693,236)
Transportation services	388,030	3,990	9,136	(374,904)	0	(374,904)
	<u>2,386,772</u>	<u>3,990</u>	<u>9,136</u>	<u>(2,373,646)</u>	<u>0</u>	<u>(2,373,646)</u>
Other expenditures:						
Facilities acquisitions	55,357	0	0	(55,357)	0	(55,357)
Long-term debt interest	136,000	0	0	(136,000)	0	(136,000)
AEA flowthrough	289,512	0	289,512	0	0	0
Depreciation(unallocated) *	229,883	0	0	(229,883)	0	(229,883)
	<u>710,752</u>	<u>0</u>	<u>289,512</u>	<u>(421,240)</u>	<u>0</u>	<u>(421,240)</u>
Total governmental activities	9,130,091	1,113,010	889,278	(7,127,803)	0	(7,127,803)
Business-Type activities:						
Support services:						
Operation and maintenance of plant services	4,893	0	0	0	(4,893)	(4,893)
Non-instructional programs:						
Nutrition services	372,183	193,110	189,593	0	10,520	10,520
Total business-type activities	<u>377,076</u>	<u>193,110</u>	<u>189,593</u>	<u>0</u>	<u>5,627</u>	<u>5,627</u>
Total	<u>\$ 9,507,167</u>	<u>1,306,120</u>	<u>1,078,871</u>	<u>(7,127,803)</u>	<u>5,627</u>	<u>(7,122,176)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 2,477,214	0	2,477,214
Capital outlay				53,924	0	53,924
Local option sales and services				598,387	0	598,387
Unrestricted state grants				3,910,492	0	3,910,492
Unrestricted investment earnings				96,285	572	96,857
Other				85,511	0	85,511
Total general revenues				<u>7,221,813</u>	<u>572</u>	<u>7,222,385</u>
Changes in net assets				94,010	6,199	100,209
Net assets beginning of year				<u>5,993,839</u>	<u>69,887</u>	<u>6,063,726</u>
Net assets end of year				<u>\$ 6,087,849</u>	<u>76,086</u>	<u>6,163,935</u>

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Debt Service	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments:				
ISCAP(Note 4)	\$ 1,902,071	0	0	1,902,071
Other	585,077	494,590	626,481	1,706,148
Receivables:				
Property tax:				
Delinquent	36,570	0	3,964	40,534
Succeeding year	2,109,695	0	177,959	2,287,654
Income surtax	296,066	0	0	296,066
Accounts	518	0	5,500	6,018
Accrued ISCAP interest(Note 4)	15,829	0	0	15,829
Due from other governments	131,837	0	99,123	230,960
Total Assets	\$ 5,077,663	494,590	913,027	6,485,280
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 29,872	0	0	29,872
Salaries and benefits payable	895,304	0	0	895,304
ISCAP warrants payable(Note 4)	1,901,000	0	0	1,901,000
ISCAP accrued interest payable(Note 4)	14,823	0	0	14,823
ISCAP unamortized premium	13,428	0	0	13,428
Deferred revenue:				
Succeeding year property tax	2,109,695	0	177,959	2,287,654
Income surtax	296,066	0	0	296,066
Other	2,911	0	0	2,911
Total liabilities	5,263,099	0	177,959	5,441,058
Fund balances:				
Reserved for:				
Debt service	0	494,590	0	494,590
Phase III	1,577	0	0	1,577
Early Intervention	23,582	0	0	23,582
Unreserved	(210,595)	0	735,068	524,473
Total fund balances	(185,436)	494,590	735,068	1,044,222
Total Liabilities and Fund Balances	\$ 5,077,663	494,590	913,027	6,485,280

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total fund balances of governmental funds (page 15)	\$ 1,044,222
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	6,520,328
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(44,257)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	296,066
Long-term liabilities, including bonds payable, bus lease, early retirement, and land purchase are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,728,510)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 6,087,849</u></u>

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	General	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,322,687	0	814,294	3,136,981
Tuition	803,065	0	0	803,065
Other	153,721	3,518	324,764	482,003
State sources	4,531,530	0	0	4,531,530
Federal sources	268,240	0	0	268,240
Total revenues	8,079,243	3,518	1,139,058	9,221,819
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	4,110,236	0	65,480	4,175,716
Special instruction	988,254	0	0	988,254
Other instruction	661,365	0	251,170	912,535
	5,759,855	0	316,650	6,076,505
Support services:				
Student services	289,636	0	0	289,636
Instructional staff services	135,997	0	0	135,997
Administration services	885,185	750	0	885,935
Operation and maintenance of plant services	586,055	0	100,493	686,548
Transportation services	324,288	0	0	324,288
	2,221,161	750	100,493	2,322,404
Other expenditures:				
Facilities acquisitions	0	0	202,602	202,602
Long-term debt:				
Principal	0	392,590	0	392,590
Interest	0	97,312	0	97,312
AEA flowthrough	289,512	0	0	289,512
	289,512	489,902	202,602	982,016
Total expenditures	8,270,528	490,652	619,745	9,380,925
Excess(deficiency) of revenues over(under) expenditures	(191,285)	(487,134)	519,313	(159,106)
Other financing sources (uses):				
Sale of equipment	9,738	0	0	9,738
Transfers in	15,404	467,850	0	483,254
Transfers out	(52,793)	0	(430,461)	(483,254)
Total other financing sources (uses)	(27,651)	467,850	(430,461)	9,738
Net change in fund balances	(218,936)	(19,284)	88,852	(149,368)
Fund balance beginning of year	33,500	513,874	646,216	1,193,590
Fund balance end of year	\$ (185,436)	494,590	735,068	1,044,222

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ (149,368)

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 161,793	
Depreciation expense	<u>(325,889)</u>	(164,096)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 392,590

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (38,688)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (7,456)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds, as follows:

Early Retirement	<u>61,028</u>	
------------------	---------------	--

Changes in net assets of governmental activities (page 14) \$ 94,010

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	<u>School</u> <u>Nutrition</u>
Assets	
Cash and pooled investments	\$ 29,875
Inventories	15,242
Capital assets, net of accumulated depreciation	<u>34,847</u>
Total Assets	<u>79,964</u>
Liabilities	
Salaries and benefits payable	75
Unearned revenue	<u>3,803</u>
Total Liabilities	<u>3,878</u>
Net Assets	
Invested in capital assets, net of related debt	34,847
Unrestricted	<u>41,239</u>
Total Net Assets	<u><u>\$ 76,086</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	<u>\$ 193,110</u>
Operating expenses:	
Support services:	
Operation and maintenance of plant services	
Services	<u>4,893</u>
Non-instructional programs:	
Food service operations:	
Salaries	150,776
Benefits	23,803
Services	4,233
Supplies	184,356
Depreciation	<u>9,015</u>
	<u>372,183</u>
Total operating expenses	<u>377,076</u>
Operating loss	<u>(183,966)</u>
Non-operating revenues:	
State sources	5,759
Federal sources	183,834
Interest income	<u>572</u>
Total non-operating revenues	<u>190,165</u>
Net income	6,199
Net assets beginning of year	<u>69,887</u>
Net assets end of year	<u><u>\$ 76,086</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENT.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 192,272
Cash received from miscellaneous operating activities	430
Cash payments to employees for services	(174,617)
Cash payments to suppliers for goods or services	(165,067)
Net cash used in operating activities	<u>(146,982)</u>
Cash flows from non-capital financing activities:	
State grants received	5,759
Federal grants received	156,304
Net cash provided by non-capital financing activities	<u>162,063</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(2,946)</u>
Cash flows from investing activities:	
Interest on investments	<u>572</u>
Net increase in cash and cash equivalents	12,707
Cash and cash equivalents at beginning of year	<u>17,168</u>
Cash and cash equivalents at end of year	<u><u>\$ 29,875</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (183,966)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	27,530
Depreciation	9,015
Decrease in inventories	885
Decrease in salaries and benefits payable	(38)
Decrease in unearned revenue	(408)
Net cash used in operating activities	<u><u>\$ (146,982)</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u><u>\$ 29,875</u></u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$27,530.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Central Lee Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Donnellson, Iowa, and the predominate agricultural territory in Lee County. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Central Lee Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Central Lee Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Lee County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary financial statements are reported using the economic resources measurement focus. The Government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a

liability is incurred, regardless of the timing of related cash flows.

Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable- Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's had no investments at June 30, 2006.

(3) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	General Fund	\$ 52,793
Debt Service	Capital Projects	415,057
General Fund	Special Revenue, Student Activity	15,404
Total		<u>\$ 483,254</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06B	1/26/06	1/26/07	\$ 763,656	15,475	761,000	14,542
2006-07A	6/28/06	6/28/07	1,138,415	354	1,140,000	281
			<u>\$ 1,902,071</u>	<u>15,829</u>	<u>1,901,000</u>	<u>14,823</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06A	\$ 0	950,000	950,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	4.000%	3.903%
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 203,592	0	0	203,592
Total capital assets not being depreciated	203,592	0	0	203,592
Capital assets being depreciated:				
Buildings	8,326,334	60,441	0	8,386,775
Improvements other than buildings	1,199,855	86,804	3,000	1,283,659
Machinery and equipment	2,466,203	14,548	112,096	2,368,655
Total capital assets being depreciated	11,992,392	161,793	115,096	12,039,089
Less accumulated depreciation for:				
Buildings	2,738,397	172,453	0	2,910,850
Improvements other than buildings	602,129	57,430	3,000	656,559
Machinery and equipment	2,171,034	96,006	112,096	2,154,944
Total accumulated depreciation	5,511,560	325,889	115,096	5,722,353
Total capital assets being depreciated, net	6,480,832	(164,096)	0	6,316,736
Governmental activities capital assets, net	\$ 6,684,424	(164,096)	0	6,520,328
Business-type activities:				
Machinery and equipment	\$ 202,762	2,946	0	205,708
Less accumulated depreciation	161,846	9,015	0	170,861
Business-type activities capital assets, net	\$ 40,916	(6,069)	0	34,847

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 14,141
Special	1,710
Other	2,553

Support services:

Instructional staff	1,384
Administration	5,788
Operation and maintenance of plant	6,688
Transportation	63,742
	<u>96,006</u>

Unallocated depreciation 229,883

Total governmental activities depreciation expense \$ 325,889

Business-type activities:

Food services	\$ 9,015
Total business-type activities depreciation expense	<u>\$ 9,015</u>

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Revenue Bond	\$ 1,870,000	0	335,000	1,535,000	355,000
Bus Lease	99,577	0	48,814	50,763	50,763
Land	109,593	0	8,776	100,817	9,478
Early Retirement	102,958	4,165	65,193	41,930	41,930
Total	<u>\$ 2,182,128</u>	<u>4,165</u>	<u>457,783</u>	<u>1,728,510</u>	<u>457,171</u>

Revenue Bonds Payable

Details of the District's June 30, 2006 revenue bond indebtedness are as follows:

Year Ending June 30,	Bond issue dated January 1, 2001			
	Interest Rates	Principal	Interest	Total
2007	4.65-4.70 %	\$ 355,000	68,797	423,797
2008	4.70-4.75	370,000	52,038	422,038
2009	4.75-4.80	395,000	34,151	429,151
2010	4.80	415,000	15,000	430,000
Total		<u>\$ 1,535,000</u>	<u>169,986</u>	<u>1,704,986</u>

Bus Lease

Details of the District's June 30, 2006 Bus Lease indebtedness, which is paid from the General Fund, is as follows:

Year Ending June 30,	Bus Lease dated August 1, 2001		
	Principal	Interest	Total
2007	\$ 50,763	2,030	52,793

Land Purchase

Details of the District's June 30, 2006 Land Purchase indebtedness, which is paid from the Capital Projects Fund, is as follows:

Year Ending June 30,	Land purchase dated October 1, 2001		
	Principal	Interest	Total
2007	\$ 9,478	8,065	17,543
2008	10,237	7,307	17,544
2009	11,055	6,488	17,543
2010	11,940	5,604	17,544
2011	12,895	4,649	17,544
2012	13,927	3,617	17,544
2013	15,041	2,503	17,544
2014	16,244	1,300	17,544
Total	\$ 100,817	39,533	140,350

Early Retirement

The District offers a voluntary early retirement plan to its certified and classified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees complete an application which is required to be approved by the Board of Education. Early retirement benefits paid during the year ended June 30, 2006, totaled \$65,193.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005, and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$306,343, \$299,066, \$278,076, respectively, equal to the required contributions for each year.

(8) Risk Management

Central Lee Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$289,512 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Deficit Fund Balance

The District has a deficit unreserved fund balance in the General Fund of \$210,595.

REQUIRED SUPPLEMENTARY INFORMATION

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 4,422,049	193,682	4,615,731	4,485,924	4,485,924	129,807
Intermediate sources	0	0	0	3,000	3,000	(3,000)
State sources	4,531,530	5,759	4,537,289	4,674,515	4,674,515	(137,226)
Federal sources	268,240	183,834	452,074	534,000	534,000	(81,926)
Total revenues	9,221,819	383,275	9,605,094	9,697,439	9,697,439	(92,345)
Expenditures:						
Instruction	6,076,505	0	6,076,505	6,727,938	6,727,938	651,433
Support services	2,322,404	4,893	2,327,297	2,705,000	2,705,000	377,703
Non-instructional programs	0	372,183	372,183	420,719	420,719	48,536
Other expenditures	982,016	0	982,016	1,904,475	1,904,475	922,459
Total expenditures	9,380,925	377,076	9,758,001	11,758,132	11,758,132	2,000,131
Excess(deficiency) of revenues over(under) expenditures	(159,106)	6,199	(152,907)	(2,060,693)	(2,060,693)	1,907,786
Other financing sources, net	9,738	0	9,738	2,000	2,000	7,738
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(149,368)	6,199	(143,169)	(2,058,693)	(2,058,693)	1,915,524
Balance beginning of year	1,193,590	69,887	1,263,477	2,280,629	2,280,629	(1,017,152)
Balance end of year	\$ 1,044,222	76,086	1,120,308	221,936	221,936	898,372

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the 'general Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides district expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Capital Projects	
Assets							
Cash and pooled investments	\$ 144,814	137,097	68,538	21,997	372,446	254,035	626,481
Receivables:							
Property tax:							
Current year delinquent	2,992	0	972	0	3,964	0	3,964
Succeeding year	123,750	0	54,209	0	177,959	0	177,959
Accounts	0	0	0	0	0	5,500	5,500
Due from other governments	0	0	0	0	0	99,123	99,123
Total Assets	\$ 271,556	137,097	123,719	21,997	554,369	358,658	913,027
Liabilities and Fund Balances							
Liabilities:							
Deferred revenue:							
Succeeding year property tax	\$ 123,750	0	54,209	0	177,959	0	177,959
Total Liabilities	123,750	0	54,209	0	177,959	0	177,959
Fund balances:							
Unreserved	147,806	137,097	69,510	21,997	376,410	358,658	735,068
Total fund balances	147,806	137,097	69,510	21,997	376,410	358,658	735,068
Total Liabilities and Fund Balances	\$ 271,556	137,097	123,719	21,997	554,369	358,658	913,027

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue	Capital Projects	
REVENUES:							
Local sources:							
Local tax	\$ 161,983	0	53,924	0	215,907	598,387	814,294
Other	0	289,494	12,900	0	302,394	22,370	324,764
TOTAL REVENUES	161,983	289,494	66,824	0	518,301	620,757	1,139,058
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	65,480	0	0	0	65,480	0	65,480
Other instruction	0	251,170	0	0	251,170	0	251,170
Support services:							
Operation and maintenance of plant services	100,493	0	0	0	100,493	0	100,493
Other expenditures:							
Facilities acquisitions	0	0	36,905	0	36,905	165,697	202,602
TOTAL EXPENDITURES	165,973	251,170	36,905	0	454,048	165,697	619,745
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,990)	38,324	29,919	0	64,253	455,060	519,313
OTHER FINANCING USES:							
Transfers out	0	(15,404)	0	0	(15,404)	(415,057)	(430,461)
NET CHANGE IN FUND BALANCES	(3,990)	22,920	29,919	0	48,849	40,003	88,852
FUND BALANCE BEGINNING OF YEAR	151,796	114,177	39,591	21,997	327,561	318,655	646,216
FUND BALANCE END OF YEAR	\$ 147,806	137,097	69,510	21,997	376,410	358,658	735,068

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
All School Play	\$ 2,819	984	726	3,077
Drama Club	683	286	68	901
Quiz Bowl	36	55	76	15
Yearbook	1,404	4,830	5,311	923
Uniform Band Fee	864	0	175	690
Milk Machine	1,121	3,527	3,876	771
Art Club	633	2,346	1,727	1,252
Pep Club	165	0	0	165
AFS Club	1,998	6,733	7,534	1,197
Student Council	12,022	18,586	15,082	15,526
Spanish Club	2,586	2,211	2,312	2,485
Science Club	22	1,055	179	898
Computer Club	140	0	0	140
FBLA Club	1,016	1,965	1,983	998
FFA	23,567	46,479	39,905	30,141
FCCLA Group	110	19	102	27
National Honor Society	(55)	0	(55)	0
Class of 2005	(917)	301	(616)	0
Class of 2007	154	4,629	4,195	588
Class of 2006	703	212	674	241
Class of 2008	95	0	13	82
Post Prom Activities	386	0	0	386
SAEP-Entrepreneurship	8,348	11,686	6,004	14,030
Athletics	1,346	3,218	4,549	15
Athletic Activities	1,636	7,135	4,133	4,638
Concessions	2,822	36,272	34,193	4,901
Golf	(263)	148	(146)	31
Cross Country	21	50	3	68
Soccer	511	1,101	1,088	524
Boys Basketball	1,423	7,787	4,697	4,513
Football	732	10,635	9,554	1,813
Baseball	3,160	3,840	2,890	4,110
Boys Track	(617)	1,978	1,349	12
Wrestling	150	0	0	150
Girls Basketball	1,497	5,580	2,691	4,386
Volleyball	277	4,274	2,516	2,035
Softball	2,809	2,901	1,200	4,510
Girls Track	85	1,739	1,725	99
Cheerleaders	35	2,540	2,666	(91)
Dance Team	60	272	259	73
Library Club	194	783	783	194
Teachers Pop Fund	2,076	3,395	2,625	2,846

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS Student Activities	(201)	3,759	2,672	886
Renaissance Program	1,033	6,973	4,929	3,077
S.A.D.D	239	0	0	239
K-8 Conference Fair	2,372	7,371	8,332	1,411
Triple M	541	0	541	0
Music Groups	2,143	0	2,143	0
Student Council	707	9,328	8,012	2,023
MS Student Activities	6,448	42,958	38,892	10,514
Athletic Resale	247	0	0	247
Future Problem Solvers	150	0	0	150
Ind. Arts Fees	7	0	7	0
K-8 Faculty Pop	80	7,963	7,091	952
JR HI Musical	287	0	287	0
JR HI Solo & Ensemble	599	0	599	0
Special Olympics	495	706	361	840
Special Needs Field Trips	2,336	1,817	1,968	2,185
Sun-Glo	(135)	63	(72)	0
C.L.I.M.B.	86	0	86	0
224th Battalion Club	25	0	25	0
A/R Assessment	100	0	100	0
Playground	158	0	(85)	243
T.A.G. Club	649	0	0	649
Elementary Resale Account	775	1,632	1,476	931
Elementary Student Activities	4,191	4,882	7,145	1,928
Interest Account	110	2,490	1,138	1,462
Pepsi CD	14,881	0	14,881	0
Total	\$ 114,177	289,494	266,574	137,097

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	3,136,981	3,189,323	3,497,010	3,273,503
Tuition		803,065	724,243	595,298	538,364
Other		482,003	390,920	383,090	469,258
Intermediate sources		0	0	2,834	1,000
State sources		4,531,530	4,466,282	4,003,832	4,155,474
Federal sources		268,240	376,006	292,168	227,299
Total	\$	9,221,819	9,146,774	8,774,232	8,664,898
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	4,175,716	3,792,917	3,777,269	3,528,270
Special instruction		988,254	1,210,190	1,094,013	1,007,556
Other instruction		912,535	942,480	802,322	977,622
Support services:					
Student services		289,636	276,961	221,495	204,502
Instructional staff services		135,997	151,639	109,362	102,119
Administration services		885,935	776,587	762,246	710,578
Operation and maintenance of plant services		686,548	639,309	592,371	626,433
Transportation services		324,288	438,627	349,528	282,662
Other expenditures:					
Facilities acquisitions		202,602	332,966	173,956	581,114
Long-term debt:					
Principal		392,590	369,686	346,127	348,736
Interest		97,312	117,521	139,702	159,755
AEA flow-through		289,512	281,037	282,203	304,971
Total	\$	9,380,925	9,329,920	8,650,594	8,834,318

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Central Lee Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Central Lee Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 15, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Central Lee Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described Part I in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Lee Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II in the accompanying Schedule of Findings and Questioned Costs.

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Central Lee Community School District and other parties to whom Central Lee Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Central Lee Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

September 15, 2006

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- I-B-06 Notice of Public Hearing for Public Improvement - The District did not conduct a public hearing on the asphalt project required by Chapter 73A.2 of the Code of Iowa.

Recommendation - The District should be aware that projects that are required to be bid and which a public hearing is required, if contested by public, has to be removed at the vendors cost. Vendors should be aware of the need for public hearing if they are working with schools, and would be responsible at their expense for removing the improvement. Before entering into any contract for public improvements where the net cost is \$25,000 or more, the District is required to hold a public hearing.

Response - We will comply with the recommendation and have public hearings for all future improvements.

Conclusion - Response accepted.

- I-C-06 Student Activity Fund - During our audit issues arose about the propriety of certain transactions within the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8).

More specifically we noted in the Student Activity fund that the District purchased water from the interest account, Target donations were received and instructional supplies were purchased.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are

recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - We have reviewed our procedures and made the necessary changes.

Conclusion - Response accepted.

- I-D-06 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account.

Recommendation - The interest earned each year should be allocated out at on an annual basis to the individual activity accounts.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

- I-E-06 Supporting Documents for Payments with Credit Cards - Payments made with credit cards do not always have detailed supporting documentation.

Recommendation - The District has a policy in place for credit card usage, which states that the users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place with personnel using the district credit cards to ensure the proper detailed documentation will be available with paid credit card statements.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

- I-F-06 Maintaining of Trust Fund Donations - We noted during our audit that the District donated the balance of the Trust Fund to the Central Lee Educational Foundation. The original donations were donated to the District to award scholarships to the District's students. Therefore the District should account for the donations in a Trust Fund instead of donating the funds to an outside organization. The District should refrain from making donations to any organizations.

Recommendation - The District should review its procedures to ensure that District funds are not donated to private organizations. The District should request for the donation to be returned from the Central Lee Educational Foundation.

Response - The District will request that the funds be returned.

Conclusion - Response accepted.

CENTRAL LEE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District expenditures for the year ended June 30, 2006 did not exceed the amounts budgeted.
- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-06 Business Transactions - No business transactions between the District and District officials were noted.
- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposits and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificate of Deposit.

Recommendation - The District should contact the appropriate bank and rectify the situation.

Response - We have contacted the bank and rectified the situation.

Conclusion - Response accepted.

- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-J-06 Financial Condition - We noted during our audit that the District has a deficit unreserved fund balance of \$210,595 in the General Fund. We also noted negative account balances within the Special Revenue, Student Activity Fund.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - We will comply with the recommendation.

Conclusion - Response accepted.